



Senate

General Assembly

File No. 263

January Session, 2019

Substitute Senate Bill No. 435

Senate, April 1, 2019

The Committee on Higher Education and Employment Advancement reported through SEN. HASKELL of the 26th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT ESTABLISHING A TAX CREDIT FOR EMPLOYERS MAKING
EDUCATION LOAN PAYMENTS FOR EMPLOYEES.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective January 1, 2020, and applicable to taxable*
2 *years commencing on or after January 1, 2020*) (a) As used in this section:

3 (1) "Qualified employee" means an employee who (A) is required to
4 work at least thirty-five hours per week, (B) is a resident of the state,
5 and (C) is not an owner, member or partner of a qualified employer or
6 a family member of an owner, member or partner of a qualified
7 employer;

8 (2) "Qualified employer" means a corporation licensed to operate a
9 business in the state that employs a qualified employee and is subject
10 to tax under chapter 207 or 208 of the general statutes; and

11 (3) "Eligible education loan" means a loan made by the Connecticut
12 Higher Education Supplemental Loan Authority or by any other

13 private or governmental lender to a qualified employee to finance
14 attendance at a private occupational school or a public or independent
15 institution of higher education in the state. "Eligible education loan"
16 does not include a refinanced or consolidated loan, unless the
17 refinanced or consolidated loan is made by the Connecticut Higher
18 Education Supplemental Loan Authority.

19 (b) (1) Commencing January 1, 2020, and in each taxable year
20 thereafter, any qualified employer that employs a qualified employee
21 and makes loan payments directly to a lender on an eligible education
22 loan on behalf of the qualified employee may claim a credit against the
23 tax imposed under chapter 207 or 208 of the general statutes. Such
24 credit shall be equal to fifty per cent of the amount of the monthly loan
25 payment made by such employer on the eligible education loan,
26 multiplied by the number of months during the taxable year (A) such
27 employer made such loan payments, and (B) the qualified employee
28 was employed by such employer. No qualified employer may claim a
29 credit against the tax imposed under both chapters 207 and 208 of the
30 general statutes for the same loan payment amount.

31 (2) A qualified employer may claim a credit under this subsection
32 for a loan payment made to a lender on an eligible education loan,
33 during the part of the taxable year that the qualified employee worked
34 and resided in the state, provided a qualified employee who worked
35 and resided in the state for any part of a month shall be deemed to
36 have worked and resided in the state for the entire month for the
37 purposes of this section.

38 (3) A qualified employer may not claim a credit under this
39 subsection (A) for a loan payment made during any month of the
40 taxable year during which the employee was not a qualified employee,
41 (B) for loan payments in excess of the amounts due on the eligible
42 education loan during the taxable year, or (C) for more than thirty-six
43 months of loan payments made on behalf of any qualified employee.

44 (c) A qualified employer that claims the credit under subsection (b)
45 of this section shall provide any documentation required by the

46 Commissioner of Revenue Services in a form and manner prescribed
47 by the commissioner.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>January 1, 2020, and applicable to taxable years commencing on or after January 1, 2020</i>	New section

Statement of Legislative Commissioners:

In Subsec. (b)(1), "or lenders" was deleted for conciseness, "on behalf of the qualified employee", "both" and Subpara. designators were added for clarity; in Subsec. (b)(2), "loan payments", "loans" and "loan payment amounts" were made singular for consistency with the style of the general statutes, "actually", "relevant", "or lenders only with respect to" and the Subpara. designators were deleted for conciseness, "and resided" was added for accuracy and "for the purposes of this section" was added for clarity; in Subsec. (b)(3), "with respect to months" was changed to "for a loan payment made during any month" for clarity, "on the eligible education loan" was added for clarity and "with respect to any specific" was changed to "of loan payments made on behalf of any" for clarity.

HED *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 20 \$	FY 21 \$
Department of Revenue Services	GF - Revenue Loss	None	Up to 60 million
Department of Revenue Services	GF - Cost	141,213	68,531
State Comptroller - Fringe Benefits ¹	GF - Cost	27,273	28,228

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a credit against the Corporation Business Tax and Insurance Premiums Tax for certain student loan payments on employees' behalf, results in: 1) a General Fund revenue loss of up to \$60 million annually beginning in FY 21, 2) a one-time cost to the Department of Revenue Services (DRS) of \$75,000 for updates to the online Taxpayer Service Center and internal Integrated Tax Administration System in FY 20 only, and 3) an ongoing cost to the DRS of \$93,486 in FY 20 and \$96,759 in FY 21 for salary and fringe benefit costs associated with one Revenue Examiner.

Projected Revenue Loss

The projected revenue loss is derived from data from the DRS indicating that filers under the Corporation Business Tax could apply

¹The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.19% of payroll in FY 20 and FY 21.

an approximate additional \$200 million in tax credits annually against their liability before reaching the statutory limit on credit utilization.² The DRS data also indicates that filers under the Insurance Premiums Tax currently extinguish all eligible liability through the use of credits. Consequently, only Corporation Business Tax filers are assumed to be affected by the provisions of the bill for the purposes of this analysis.

This analysis also relies on data from the Society for Human Resource Management's 2017 Employee Benefits Survey indicating that approximately 4% of employers provide loan repayment assistance, with the highest prevalence occurring in the largest (i.e., 40,000+ employees) employers. Thus, it is assumed that the benefit would be offered by fewer than 80 Corporation Business Tax filers in Connecticut and would be most prevalent among those with the highest tax liability. It is estimated that these filers could apply approximately \$60 million in additional tax credits of the \$200 million total estimated to be available.

In order to earn \$60 million in credits under the bill, filers would have to make \$120 million in eligible loan repayments as the credit is equal to 50% of amount paid. Based on data from the Federal Reserve Bank of New York, it is estimated that Connecticut residents have approximately \$16 billion in outstanding student loan debt.

The actual revenue loss is dependent on: 1) the number of firms making eligible loan payments, 2) the number of qualified employees with eligible loans, and 3) the total amount of qualified loan repayment by employers.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Sources: *Department of Revenue Services Annual Report Fiscal Year 2017-2018*
Federal Reserve Bank of New York Quarterly Report on Household Debt and

² CGS Sec. 12-217zz limits the total value of most credits an entity may claim under the Corporation Business Tax to 50.01% of its pre-credit liability.

Credit 2018:Q4

Society for Human Resource Management 2017 Employee Benefits Survey

OLR Bill Analysis**sSB 435*****AN ACT ESTABLISHING A TAX CREDIT FOR EMPLOYERS MAKING EDUCATION LOAN PAYMENTS FOR EMPLOYEES.*****SUMMARY**

This bill establishes a tax credit for qualified employers making student loan payments directly to a lender on an eligible loan on behalf of a qualified employee. The credit is equal to 50% of the amount of the monthly loan payment multiplied by the number of months during the taxable year in which (1) the employer made such loan payments, and (2) the employer employed the person. The employer can claim the credit for up to 36 months, and apply the credit against their insurer and health care center or corporation business tax.

Under the bill, an eligible education loan is a loan made by (1) the Connecticut Higher Education Supplemental Loan Authority (CHESLA) or (2) a private or governmental lender, and used to finance a qualified employee's attendance at a state private occupational school or public or independent higher education institution. Refinanced or consolidated loans are not eligible unless such loan is made by CHESLA.

The bill requires a qualified employer claiming such tax credit to provide any required documentation to the Department of Revenue Services commissioner in a form and manner he prescribes.

EFFECTIVE DATE: January 1, 2020, and applicable to taxable years beginning on or after that date.

QUALIFIED EMPLOYERS AND EMPLOYEES

Under the bill, a "qualified employer" is a corporation that (1) is licensed to operate a business in the state, (2) employs a qualified

employee, and (3) is subject to the state's insurer and health care center or corporation business tax.

A "qualified employee" is an employee who is (1) required to work at least 35 hours per week, (2) a state resident, and (3) not an owner, member, or partner of a qualified employer, or a family member of a qualified employer's owner, member, or partner.

CLAIMING CREDITS

The bill allows a qualified employer to claim a tax credit for a loan payment made to a lender during the part of the taxable year that the qualified employee worked and lived in the state. For this purpose, the bill specifies that a qualified employee who worked and lived in the state for any part of a month is considered to have done so for the entire month.

The employer may not claim a tax credit for (1) a loan payment made during a month during which the employee was not a qualified employee, (2) loan payments in excess of the amounts due on the eligible education loan during the taxable year, and (3) more than 36 months of loan payments made on the employee's behalf. Under the bill, a qualified employer cannot claim a tax credit against both the state's insurer and health care center tax and the corporation business tax for the same loan payment amount.

COMMITTEE ACTION

Higher Education and Employment Advancement Committee

Joint Favorable Substitute

Yea 22 Nay 0 (03/12/2019)